

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6378

BILL NUMBER: SB 364

DATE PREPARED: Jan 14, 2002

BILL AMENDED:

SUBJECT: Renaissance Zones.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill requires the Enterprise Zone Board to designate areas within Indiana as Renaissance Zones. The bill provides relief from property taxes, the Gross Income Tax, the Adjusted Gross Income Tax, the Supplemental Net Income Tax, the County Adjusted Gross Income Tax, the County Option Income Tax, and the County Economic Development Income Tax to individuals residing in a Renaissance Zone and businesses located in a Renaissance Zone. It provides that real and personal property located in a Renaissance Zone may be assessed for payment of ad valorem property taxes committed to funding or paying bonded indebtedness or lease rentals in leases in which the original term is for at least five years.

Effective Date: July 1, 2002.

Explanation of State Expenditures: Under this bill, the 19-member state Enterprise Zone (EZ) Board would have the ability to designate Renaissance Zones. These Zones would provide temporary tax relief in certain areas to stimulate economic development and job creation. If a municipality containing an EZ applies to the Board to have part of the EZ established as a Renaissance Zone, the Board must approve this request. The executive of a municipality not containing an EZ (excluding towns in Marion County) may apply to the Board to establish part of the municipality as a Renaissance Zone upon approval by the local legislative body. The EZ Board may designate up to 25 Zones between November 1, 2002, and December 31, 2003. A municipality may not contain more than one Renaissance Zone, but each Zone may include up to six noncontiguous subzones.

The EZ Board would be required to promulgate rules for the approval of Zones and to contract with a state university to deliver an annual report to the General Assembly on the effectiveness of each Renaissance Zone. The Indiana Department of Commerce (IDOC) currently provides administrative support to the Board. The IDOC may incur some additional administrative expenses associated with this proposal, however, it is expected that these costs could be absorbed given the Department's existing budget and resources. The State Board of Tax Commissioners and the Department of Revenue may also incur administrative expenses

regarding the provisions of this bill.

Explanation of State Revenues: (Revised) *Renaissance Zones:* Under this proposal, businesses and individuals who are located in Renaissance Zones would be exempt from the Gross Income Tax, the Adjusted Gross Income Tax, the Supplemental Net Income Tax, local real and personal property taxes, and local option income taxes (the County Adjusted Gross Income Tax, the County Option Income Tax, and the County Economic Development Income Tax). However, businesses and individuals would not be exempt from property taxes resulting from local bonded indebtedness or lease rentals with an original term of at least five years. An individual must reside in the Zone at least 183 days before they are eligible for an exemption from the state individual Adjusted Gross Income Tax and any local option income taxes. Businesses would still be required to collect and remit sales tax on transactions occurring within Zones.

Renaissance Zones (and any related tax credits, exemptions or deductions) expire 15 years after being established by the EZ Board. As Zones may be designated between November 1, 2002, and December 31, 2003, the state impact of this proposal could range from FY 2003 to FY 2018. In the last three years of each Zone's existence, the amount of any credit, exemption, or deduction allowed to a taxpayer would be reduced as follows:

Phase-Down of Renaissance Zone-Related Tax Incentives		
Two Years Before Final Year	One Year Before Final Year	Final Year
25% reduction	50% reduction	75% reduction

The estimated revenue loss to the state is indeterminable and dependent on the number, location, and size of the Zones which may be designated. There is a \$10 M limit on the aggregate amount of exemptions, deductions, and credits that an individual Renaissance Zone resident may receive. Businesses that reduce or terminate operations elsewhere within the state in order to relocate in Renaissance Zones would generally be disqualified from any Zone tax incentives. However, if businesses in other states relocate within Indiana's Zones, there could be positive secondary economic impacts to the state.

The state of Michigan passed similar legislation in 1996 establishing 11 Renaissance Zones, each with an average of 4 subzones and a size of 1.6 square miles. The Michigan Department of Treasury estimates that the state and local revenue loss (plus required state reimbursements of local units) associated with Renaissance Zones in the 1999 tax year was approximately \$15 M. The estimated impact to the state was a revenue reduction of \$1.2 M from Michigan's state education property tax, \$3.9 M from the Single Business Tax and \$0.3 M from the Personal Income Tax. The state of Michigan is required to reimburse schools, community colleges, and public libraries approximately \$4.6 M. The total impact to the state was projected at \$10 M. Local units of government are expected to lose approximately \$4.8 M of property tax and local income taxes which would not be reimbursed by the state of Michigan.

As of September 2001, the Michigan Economic Development Corporation reports 216 economic development projects have been created in Renaissance Zones since they were established on January 1, 1997. These projects have resulted in more than 5,800 new jobs and with combined private investment of more than \$1.3 B.

If a municipality containing an Enterprise Zone applies to the Board to have part of the EZ established as a

Renaissance Zone, the Board must approve this request. Businesses and individuals currently receiving EZ-related tax benefits would then be eligible for all Renaissance Zone-related incentives. Indiana currently has 27 EZs, and Jeffersonville and New Albany have applied to establish EZs in their cities. Renaissance Zones must be larger than three-fourths of a square mile, but less than six square miles in size. If the Renaissance Zone contains a municipally owned parcel larger than 25 acres, the size of the zone may be increased to accommodate this parcel.

If all 27 Enterprise Zones were re-established as Renaissance Zones, the total impact would likely be greater than the \$15 M loss of revenue in Michigan for their 11 Zones. In 2000, EZ businesses received \$39 M in inventory tax exemptions alone, as inventory held in an EZ is exempt from property taxation. (*Note: The \$39 M would not be collected regardless of this proposal, but this figure is provided to illustrate the scale of the bill's impact.*) In addition, fewer than 200 residents of Renaissance Zones took advantage of the exemption from Michigan's Personal Income Tax in 1998. As of 2000, approximately 130,500 individuals currently reside in Indiana EZs.

Enterprise Zones: This proposal also requires Urban Enterprise Associations (UEAs), the local managing entities of EZs, to use contributions from EZ businesses only for projects improving the physical environment, including construction, maintenance, and repair of roads, streets, sidewalks, sewers, and storm sewers. Some past UEA activities not directly impacting the physical environment of EZs have included operating day-care centers, granting scholarships, and holding seminars on various topics.

Under current law, each EZ business receiving more than \$1,000 annually in EZ-related tax incentives must contribute to the UEA an amount equal to a certain percentage of the total incentives received. This percentage varies with each EZ, but ranges between 20% and 35% of the total tax incentives received.

Explanation of Local Expenditures:

Explanation of Local Revenues: Local units applying for Zone designation would be able to estimate the potential revenue loss associated with this program. These local units would reduce the property tax and local option income tax revenue which would have otherwise been generated in these areas. However, if businesses from other states relocate within Indiana's Renaissance Zones, there could be positive secondary economic impacts to local units. Renaissance Zones (and any related tax credits, exemptions, or deductions) expire 15 years after being established by the EZ Board. As Zones may be designated between November 1, 2002, and December 31, 2003, the local impact of this proposal could range from CY 2003 to CY 2018.

State Agencies Affected: Department of Commerce, State Budget Agency, State Board of Tax Commissioners, Department of State Revenue.

Local Agencies Affected: Local units where Renaissance Zones are established; UEAs.

Information Sources: Leslie Richardson, Director of Research, Department of Commerce, (317) 232-8962; Michigan Department of Treasury, (517) 373-2697; Michigan Economic Development Corporation.